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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001448

SIPDIS

STATE FOR E, EB/CBED, EB/ESC, EUR/SE  
STATE PASS NSC FOR QUANRUD AND BRYZA  
USDOC FOR 4212/ITA/MAC/OEURA/CPD/DDEFALCO  
USDOE FOR PUMPHREY/ROSSI

E.O. 12958: DECL: 03/06/2013  
TAGS: [ENRG](#) [ECON](#) [EPET](#) [AJ](#) [GG](#) [KZ](#) [TU](#)  
SUBJECT: BTC, SHAH DENIZ, TURKEY-GREECE INTERCONNECT: ON  
TRACK, BUT CHALLENGES REMAIN

REF: A) ATHENS 638 B) ANKARA 753 C) ANKARA 528

Classified by EconCouns Scot Marciel, Reason 1.5 (b,d)

11. (C) Summary: BP and BOTAS General Manager Bildaci are still concerned that BOTAS does not have sufficient authority to meet its obligations under the BTC turnkey contract. BP has sent a letter to Energy Minister Guler requesting his personal intervention on this issue; Bildaci is raising it directly with Guler and Foreign Minister Yakis March 6. TPAO is still waiting for a response from the World Bank on applicability of the negative pledge clause; officials may raise this issue with CBED Amb. Mann during his March 12 visit to Ankara. Bildaci expects BOTAS and DEPA to sign the Turkey-Greece Interconnector sales purchase agreement in March, prior to which he will seek Amb. Mann's help in increasing the volumes to which DEPA commits. End summary.

Baku-Tbilisi-Ceyhan Oil Pipeline  
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12. (C) Although BTC construction in Turkey is on schedule and on budget, there is still concern that BOTAS does not have sufficient authority to make and implement key operational decisions, which could ultimately slow construction and lead to cost overruns (ref b). BP Associate President Woodward told us he raised this issue with Energy Minister Guler during their February 7 meeting, emphasizing that BOTAS must have sufficient authority to carry out its responsibilities under the BTC turnkey contract. (Note, however, that Woodward also told us that Turkey was in "very good shape" on the technical side of BTC.) BP then followed up with a letter from BTC CEO Townshend to the Minister specifically requesting that Guler give the BOTAS General Manager the authority to enter into and manage contracts under USD 10 million, and that he instruct the BOTAS Board of Directors that BTC funds should be managed like those of a private venture.

13. (C) A BP executive told econoff that GM Bildaci, at some personal risk, was doing his best to meet BOTAS's obligations under the contract, but was obstructed by other government agencies at every turn. For example, the Treasury had recently requested an investigation into the BOTAS BTC Directorate's budget based on a reported increase in management costs of the project. The BP exec said this investigation was laughable, since BOTAS is installing the BTC pipe in Turkey at a cost far below the world average. For example, he said, the average cost of installed pipe in Georgia was USD 46/meter, in Azerbaijan USD 27/meter, and in Turkey about USD 14/meter. Instead of taking up precious time with a useless investigation, the exec argued, Treasury should be commending BOTAS on its success in shrewdly negotiating the BTC sub-contracts and in keeping management costs as low as they are.

14. (C) BOTAS General Manager Bildaci shares BP's frustration. He told econoff March 5 that Minister Guler repeatedly claimed to "support" BOTAS; however, Bildaci said, he needed freedom more than support. In order to manage an international, USD 1.4 billion contract on a strict deadline and budget, he could not apply to 5 different government agencies for approval every time he wanted to hire new personnel, conduct a feasibility study, or pay for consultants. Bildaci said he was meeting with the Energy Minister and Foreign Minister on March 6 to discuss the BP letter. He would argue at that meeting that BOTAS should be removed from the decree that oversees state entities. Otherwise, it would be very difficult to meet the requirements of the BTC turnkey contract.

#### Shah Deniz Gas Pipeline/TPAO Financing

15. (SBU) Ministry of Energy and BOTAS officials are pleased about the recent sanction of Shah Deniz, but are seeking details about plans for a sanction ceremony in Baku in March or April, claiming that they have no definitive information regarding an event. The MENR Pipelines Department Head had not been informed that President Sezer had been invited to Baku, although this may be due to a lack of internal coordination.

16. (SBU) The Turkish Petroleum Agency (TPAO) continues to assess its financing options for Shah Deniz and its other Caspian projects. TPAO still has not received a definitive response from the World Bank regarding applicability of the negative pledge clause to TPAO, although TPAO officials told econoff there have been "indications" that the response will be negative. GOT officials may raise the negative pledge clause issue with CBED Amb. Mann during his March 12 visit to Ankara.

#### Turkey-Greece Interconnector

17. (C) BOTAS General Manager Bildaci told econoff that he had accompanied Minister Guler to Athens for the signing of the intergovernmental agreement for the Interconnector Turkey-Greece, or "ITG" (ref a). Like DEPA officials (ref a), Bildaci expects that DEPA and BOTAS will sign the gas sales purchase agreement (SPA) in March. Bildaci noted that DEPA wanted to modify 12 articles in the draft SPA, but said the changes should not be deal breakers. Now that Shah Deniz had been sanctioned, Bildaci said, BOTAS had more flexibility on price as well.

18. (C) Bildaci said he would be seeking CBED Ambassador Mann's support in encouraging DEPA to commit to taking 2-3 bcm of gas annually through the ITG, ramping up over several years from the 1/2 bcm to which DEPA is currently committed to taking. BOTAS had the right to re-export all the Shah Deniz gas it would import under that sales purchase agreement, so he hoped to export more of it to Greece.

19. (C) Bildaci noted that BOTAS, DEPA, and the Italian company Edison had recently had good negotiations in Istanbul, where they had discussed Edison eventually importing 8 bcm annually from Turkey through Greece. The next step, he said, was to conduct a feasibility study of a Greece-Italy line.

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